

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 505 - SB 491

March 28, 2011

SUMMARY OF BILL: Expands the students eligible to enroll in a public charter school to all students eligible for free and reduced price lunch. Authorizes charter schools to be formed that are solely for high school students who have dropped out and wish to re-enroll. Directs that a sponsor of a charter school who is a public post-secondary institution does not have to form a separate non-profit entity to be the governing body of the charter school as long as the governing body includes at least one parent representative. Eliminates the cap on the number of charter schools. Removes provisions in current law requiring public charter schools to give enrollment priority to certain classifications of eligible students. Authorizes public charter school teachers and principals to attend professional development or other training provided by the local education agency (LEA). Authorizes a public charter school that is created to serve students previously enrolled in a school failing to meeting adequate yearly progress or in a public school that has been converted to a charter school to continue to operate and draw students from an area at least as large as the zone from which the public school could enroll students at the time that the public charter school was formed.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – \$497,800/FY13-14

Increase Local Expenditures - \$1,785,900/FY13-14

\$2,892,600 /FY14-15

\$4,110,600 /FY15-16

\$5,176,300 /FY16-17

\$6,089,700 /FY17-18

\$6,850,900 /FY18-19

\$7,459,900 /FY19-20

\$7,916,600 /FY20-21

\$8,221,100 /FY21-22

\$8,373,400 /FY22-23 and Subsequent Years*

Assumptions:

- The charter school application and approval process will require significant lead-time.
- Eleven new charter schools are scheduled to open in FY11-12 under current law. One new charter school has been approved to open in FY12-13 under current law. It is assumed that an additional nine charter schools will open in FY12-13 under current law

HB 505 - SB 491

which will put the total number of charter schools at 40 schools. This bill will remove the current statutory cap of 90 charter schools.

- Other states lifting charter school restrictions have added 9-11 new charter schools per year. This bill does not lift all enrollment restrictions. It is estimated that five new charter schools will open in FY13-14 as a result of this bill. Four new schools will open each year beginning in FY14-15 through FY22-23 as a result of this bill.
- At least one charter school will open over the ten-year period that is devoted exclusively to the re-enrollment of previous high school students who have dropped out. Students enrolling in this high school will be counted as new students and will generate additional state and local Basic Education Program (BEP) funding. For the purposes of this fiscal note, this particular charter school will open in FY13-14.
- Based on information provided by the Comptroller of the Treasury, the average projected initial charter school enrollment is 128 students per school. These students will transfer from public schools and are not eligible for charter schools under current law. The number of additional charter schools in FY13-14 and each subsequent year through FY22-23 who transfer out of a regular public school will be 512(128×4) as a result of this bill.
- In FY13-14, 128 high school students will re-enroll in a public charter school.
- Charter schools are funded on a per-pupil basis. The state and local Basic Education Program (BEP) funding for students transferring out of a regular public school into a public charter school will follow the student. Based on information from the DOE, the average per pupil expenditure exclusive of federal dollars is \$5,947. Of this amount, \$3,889 is state dollars and \$2,058 is local dollars.
- Using FY11-12 funding amounts, in FY13-14 and subsequent years, the BEP will begin to generate \$263,424 in local dollars ($\$2,058 \times 128$) and \$497,792 in state dollars ($\$3,889 \times 128$).
- The annual state and local share of the cost of students transferring to charter schools as a result of this bill will be \$3,044,864 ($\$5,947 \times 512$). These state and local dollars will follow the students to the charter school.
- Charter school students will continue to be counted as LEA students for the purpose of Average Daily Membership (ADM) calculation under the BEP formula. BEP-formula generated funding will not change as a result of this bill.
- LEAs will make system-wide adjustments and will redirect or reduce resources in a manner that will partially compensate for the shift of students and funding, but will not be able to reduce teachers and classroom expenditures enough to offset fully the loss of state and local funding shifting to the charter schools. In most cases, there will not be a sufficient reduction in the number of students in any classroom to eliminate a teaching position resulting from that shift. In Davidson County, 1,256 students have moved to charter schools under current law. Davidson County has had no reduction in expenditures from this shift.
- System-wide adjustments resulting from a larger population of charter school students under this bill will create greater flexibility and will allow for some expenditure reductions that are not possible under current law. These system-wide adjustments will compensate for 50 percent of the funding shift to charter schools. LEAs will maintain teachers and resources for the remaining 50 percent of the state and local funding shift

and will increase expenditures in the amount of \$1,785,856 [$\$263,424 \text{ BEP} + (\$3,044,864 \times 50\%)$] in FY13-14.

- The system-wide adjustments will compensate for an additional 2.5 percent each year resulting in a total 72.5 percent in FY22-23 and subsequent years.
- The increase in local expenditures for FY14-15 through FY22-23 will be as follows:
 - FY14-15: \$2,892,620 [$(\$3,044,864 \times 2) \times 47.5\%$]
 - FY15-16: \$4,110,566 [$(\$3,044,864 \times 3) \times 45\%$]
 - FY16-17: \$5,176,269 [$(\$3,044,864 \times 4) \times 42.5\%$]
 - FY17-18: \$6,089,728 [$(\$3,044,864 \times 5) \times 40\%$]
 - FY18-19: \$6,850,944 [$(\$3,044,864 \times 6) \times 37.5\%$]
 - FY19-20: \$7,459,917 [$(\$3,044,864 \times 7) \times 35\%$]
 - FY20-21: \$7,916,646 [$(\$3,044,864 \times 8) \times 32.5\%$]
 - FY21-22: \$8,221,133 [$(\$3,044,864 \times 9) \times 30\%$]
 - FY22-23 and subsequent years: \$8,373,376 [$(\$3,044,864 \times 10) \times 27.5\%$]
- In FY22-23, it is assumed that equilibrium will be reached and the net number of charter schools will not change in subsequent years.

*Article II, Section 24 of the Tennessee Constitution provides that: *No law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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